MONETARY POLICY STATEMENT

# PRESS CONFERENCE

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*Frankfurt am Main, 8 September 2022*

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Good afternoon, the Vice-President and I welcome you to our press conference.

The Governing Council today decided to raise the three key ECB interest rates by 75 basis points. This major step frontloads the transition from the prevailing highly accommodative level of policy rates towards levels that will ensure the timely return of inflation to our two per cent medium-term target. Based on our current assessment, over the next several meetings we expect to raise interest rates further to dampen demand and guard against the risk of a persistent upward shift in inflation expectations. We will regularly re-evaluate our policy path in light of incoming information and the evolving inflation outlook. Our future policy rate decisions will continue to be data-dependent and follow a meeting-by-meeting approach.

We took today's decision, and expect to raise interest rates further, because inflation remains far too high and is likely to stay above our target for an extended period. According to Eurostat's flash estimate, inflation reached 9.1 per cent in August. Soaring energy and food prices, demand pressures in some sectors owing to the reopening of the economy, and supply bottlenecks are still driving up inflation. Price pressures have continued to strengthen and broaden across the economy and inflation may rise further in the near term. As the current drivers of inflation fade over time and the normalisation of our monetary policy works its way through to the economy and price-setting, inflation will come down. Looking ahead, ECB staff have significantly revised up their inflation projections and inflation is now expected to average 8.1 per cent in 2022, 5.5 per cent in 2023 and 2.3 per cent in 2024.

After a rebound in the first half of 2022, recent data point to a substantial slowdown in euro area economic growth, with the economy expected to stagnate later in the year and in the first quarter of 2023. Very high energy prices are reducing the purchasing power of people's incomes and, although supply bottlenecks are easing, they are still constraining economic activity. In addition, the adverse geopolitical situation, especially Russia's unjustified aggression towards Ukraine, is weighing on the confidence of businesses and consumers. This outlook is reflected in the latest staff projections for economic growth, which have been revised down markedly for the remainder of the current year and throughout 2023. Staff now expect the economy to grow by 3.1 per cent in 2022, 0.9 per cent in 2023 and 1.9 per cent in 2024.

The lasting vulnerabilities caused by the pandemic still pose a risk to the smooth transmission of our monetary policy. The Governing Council will therefore continue applying flexibility in reinvesting redemptions coming due in the pandemic emergency purchase programme portfolio, with a view to countering risks to the transmission mechanism related to the pandemic.

The decisions taken today are set out in a press release available on our website. A separate technical press release on the remuneration of government deposits will be published at 15:45 CET.

I will now outline in more detail how we see the economy and inflation developing and will then explain our assessment of financial and monetary conditions.

## Economic activity

The euro area economy grew by 0.8 per cent in the second quarter of 2022, mainly owing to strong consumer spending on contact-intensive services, as a result of the lifting of pandemic-related restrictions. Over the summer, as people travelled more, countries with large tourism sectors benefited especially. At the same time, businesses suffered from high energy costs and continued supply bottlenecks, although the latter have been gradually easing.

While buoyant tourism has been supporting economic growth during the third quarter, we expect the economy to slow down substantially over the remainder of this year. There are four main reasons behind this. First, high inflation is dampening spending and production throughout the economy, and these headwinds are reinforced by gas supply disruptions. Second, the strong rebound in demand for services that came with the reopening of the economy will lose steam in the coming months. Third, the weakening in global demand, also in the context of tighter monetary policy in many major economies, and the worsening terms of trade will mean less support for the euro area economy. Fourth, uncertainty remains high and confidence is falling sharply.

At the same time, the labour market has remained robust, supporting economic activity. Employment increased by more than 600,000 people in the second quarter of 2022 and the unemployment rate stood at a historical low of 6.6 per cent in July. Total hours worked increased further, by 0.6 per cent, in the second quarter of 2022 and have surpassed their pre-pandemic levels. Looking ahead, the slowing economy is likely to lead to some increase in the unemployment rate.

Fiscal support measures to cushion the impact of higher energy prices should be temporary and targeted at the most vulnerable households and firms to limit the risk of fuelling inflationary pressures, to enhance the efficiency of public spending and to preserve debt sustainability. Structural policies should aim at raising the euro area's growth potential and supporting its resilience.

## Inflation

Inflation rose further to 9.1 per cent in August. Energy price inflation remained extremely elevated, at 38.3 per cent, and it was again the dominant component of overall inflation. Market-based indicators suggest that, in the near term, oil prices will moderate, while wholesale gas prices will stay extraordinarily high. Food price inflation also rose in August, to 10.6 per cent, partly reflecting higher input costs related to energy, disruptions of trade in food commodities and adverse weather conditions.

While supply bottlenecks have been easing, these continue to gradually feed through to consumer prices and are putting upward pressure on inflation, as is recovering demand in the services sector. The depreciation of the euro has also added to the build-up of inflationary pressures.

Price pressures are spreading across more and more sectors, in part owing to the impact of high energy costs across the whole economy. Accordingly, measures of underlying inflation remain at elevated levels and the latest staff projections see inflation excluding food and energy reaching 3.9 per cent in 2022, 3.4 per cent in 2023 and 2.3 per cent in 2024.

Resilient labour markets and some catch-up to compensate for higher inflation are likely to support growth in wages. At the same time, incoming data and recent wage agreements indicate that wage dynamics remain contained overall. Most measures of longer-term inflation expectations currently stand at around two per cent, although recent above-target revisions to some indicators warrant continued monitoring.

## Risk assessment

In the context of the slowing global economy, risks to growth are primarily on the downside, in particular in the near term. As reflected in the downside scenario in the staff projections, a long-lasting war in Ukraine remains a significant risk to growth, especially if firms and households faced rationing of energy supplies. In such a situation, confidence could deteriorate further and supply-side constraints could worsen again. Energy and food costs could also remain persistently higher than expected. A further deterioration in the global economic outlook could be an additional drag on euro area external demand.

The risks to the inflation outlook are primarily on the upside. In the same way as for growth, the major risk in the short term is a further disruption of energy supplies. Over the medium term, inflation may turn out to be higher than expected because of a persistent worsening of the production capacity of the euro area economy, further increases in energy and food prices, a rise in inflation expectations above our target, or higher than anticipated wage rises. However, if energy costs were to decline or demand were to weaken over the medium term, it would lower pressures on prices.

## Financial and monetary conditions

Market interest rates have increased in anticipation of further monetary policy normalisation in response to the inflation outlook. Credit to firms has become more expensive over recent months, and bank lending rates for households now stand at their highest levels in more than five years. In terms of volumes, bank lending to firms has so far remained strong, in part reflecting the need to finance high production costs and inventory building. Mortgage lending to households is moderating because of tightening credit standards, rising borrowing costs and weak consumer confidence.

## Conclusion

Summing up, we raised the three key ECB interest rates by 75 basis points today, and expect to raise interest rates further, because inflation remains far too high and is likely to stay above our target for an extended period. This major step frontloads the transition from the prevailing highly accommodative level of policy rates towards levels that will support a timely return of inflation to our two per cent medium-term target.

Our future policy rate decisions will continue to be data-dependent and follow a meeting-by-meeting approach. We stand ready to adjust all of our instruments within our mandate to ensure that inflation returns to our medium-term inflation target.

We are now ready to take your questions.

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**Could you give us a flavour of the Governing Council's discussions, the arguments for and against, that led to today's decision to raise rates by 75 basis points and not for example by 50 or 100 basis points?**

**Then my second question: from the present standpoint how close to both the neutral rate of interest and the expected terminal rate does today's decision bring us, in your view?**

I'll take them in turn. On your first question: the Governing Council unanimously decided to raise the three key ECB rates by 75 basis points. We had different views around the table, a thorough discussion but the outcome of our discussion was a unanimous decision. So how did we come to that decision? As I have said before, and as I have repeated in that monetary policy statement, since our last July meeting we are data dependent and operate meeting by meeting. This is the methodology that we adopt. So we were presented by staff with their projection. We had the inflation numbers and the growth outlook, of course. So in the face of these extremely high numbers – the last [inflation] reading was 9.1% [year-on-year] for a monthly reading, but if you look at the last ten readings, they were the last ten highest readings in turn – we had a good analysis of the decomposition of the sources of inflation. A good analysis of where the inflation actually lies and what products are particularly affected.

Of course energy is still the major source of inflation – [energy price inflation is] 38.3% compared with a year ago – slightly moving down in these August numbers, but it is still a dominant factor, as is in the increase in food. But we also have an inflation that spreads across the whole range of products in particular in the service sector, where supply factors are less prevalent and where demand plays a role. So we have a range of products and services that are actually north of 4% [inflation rate]. In the face of an inflation that is extremely high, that is of a magnitude and persistence across sectors of that nature, obviously determined action had to be taken. This is very much in line with our determination to actually normalise monetary policy as we started back in December. So for those who consistently repeat that the European Central Bank is lagging behind, I contend that we are on a journey that started back in December where we decided to put an end to the asset purchases, the PEPP and then the APP, to move out of negative interest rates as we did back in July and now to continue on our normalisation path, with a frontloading exercise that we conducted today, because we believe that the deviation from target is such that it warrants this frontloading. We also decided that this was not an isolated decision, but that we would raise interest rates further. We didn't say that we would raise interest rates by 75 [basis points], as if 75 was the norm; it is not. We will determine meeting by meeting on the basis of data how we reach that level of interest rates which will actually return us to the 2% target in the medium term. It is not there at the moment. Our forecast at the end of December [2024] – which is not the medium term but it's the end of our projection exercise – is at 2.3%. We are not there, so we have more journey to cover going forward.

You were interested in the flavour of the Governing Council meeting; we had a very cordial, effective, deep discussion on all these matters and that certainly helped us on the basis of the proposals by staff and the recommendation by our chief economist Philip Lane, to actually go collectively in the direction of this 75 basis points hike.

Now, you asked me about how close we are to “the rate”. Whether you call it a neutral, a terminal is obviously different but I would like to say this: what I know today is that zero is not the neutral rate and that where we are is not the neutral rate. We are heading in that direction. It takes frontloading, it will take further hikes in the next several meetings of a magnitude and at a pace that will be determined meeting by meeting and on the basis of the data that we receive. But we are certainly heading there because that is where we believe that we will actually deliver on our 2% medium-term target as indicated in our strategy.

**I have a question on quantitative tightening because clearly that could be also a way to drain liquidity from the system and help you to tame inflation. Have you discussed it? Is that something you are looking at?**

**Then one question about your economic outlook because clearly, for 2023 you are seeing growth coming back to 0.9%, if I am right, but this is still quite optimistic compared to other forecasts. So why don't you see a recession? Many economists do see one.**

Let me start with the second one. The baseline [GDP growth] outlook is 3.1% for 2022, 0.9% for 2023 and 1.9% for 2024. That's the baseline that we have in the projections by staff. We also have – and I think you will be receiving those documents as well – we also have a downside scenario that has been produced by staff on the basis of assumptions of risks in particular, some of which have already materialised. In those numbers you will see that growth outlook is at [2.8]% for 2022, at -0.9% for 2023, and at 1.9% again for 2024. So while even in our baseline, we foresee some stagnation for the last quarter of 2022 and the first quarter of 2023, in the baseline we don't forecast negative growth in 2023. In the downside scenario we do; that downside scenario differs from the current situation in that it includes in particular total shutdown of all Russian gas supply.

Well, we are almost there, there is still a bit of flow going through the Ukrainian ones, but we also foresee rationing across the whole euro area and no measure of compensation between the shortage of gas supply and other alternative sources of supply. So nothing coming from either Asia or other producers of gas and in particular I don't think we take into account the liquefied natural gas (LNG) that we could be sourcing more of it from Norway or from the United States. So it's a really dark downside scenario but it's one that concludes to a 2023 recession. But it is the downside scenario; it is not the baseline.

On the issue of quantitative tightening: what we are focussed on at present is the most effective and most proportionate and most appropriate monetary policy instrument that we can use. We believe at the moment that it is the policy rate. So we are using the policy rate, we will continue using that policy rate in the next several meetings, as I have said, and of course we will look at other monetary policy instruments. At this point in time, it is still premature. It is a matter that we will of course debate amongst members of the Governing Council in due course.

**I have two questions as well. One: I want to ask you about inflation and interest rates; you've said inflation is far too high, decisive action is needed. Do you expect from today's perspective**

**– and I appreciate it's a difficult thing to say – that the ECB will have to go into restrictive monetary policy to get a handle on inflation?**

**The second one relates to your mention of government deposits and how they are remunerated. The cap on government deposits has, along with collateral scarcity and high excess liquidity, led to a considerable divergence of short-term rates in markets. I am curious what you decided on that, and how do you see the policy transmission improving as a result of your decisions.**

To your first question: I think it's a process of normalisation that we have started. As I said, beginning in December, out of negative territory in July and moving with this frontloading step in our journey of normalisation towards such rates that will be compatible for us to deliver and ensure a return to our 2% medium-term target. For the moment, we normalise. Once we have reached that level of normalisation that will enable us to have the confidence that we will return to the target of 2% in the medium term, then we will examine what is the situation on the basis of data, on the basis of what monetary policy can contribute to the economy. So we will cross that bridge when we cross that bridge. For the moment, we are actively busy and engaged in normalising our monetary policy and in making sure that we actually return to our 2% target.

On the other matter that you raised: you will be getting a technical press release that will describe precisely what decision we made in relation to the remuneration of government deposit. My recollection is that we're moving from zero to DFR (deposit facility rate) but I don't want to jump-start and I will let you just consult with great interest the technical decision that is embedded in the press release!

**You told us that the depreciation of the euro has been a criterion to this hike today. Does the ECB have an objective on the euro exchange rate since this would appear a way to lower the cost of imports especially energy ones?**

**Second question about the Transmission Protection Instrument (TPI): you unveiled details in the last meeting, but nothing has appeared in the Official Journal. Can the TPI be used for now, and if not, why take time to implement it? Is there any question about who bears the financial risk of these operations?**

It will not surprise you if I say that of course we do not target any kind of exchange rate for the euro. But of course we monitor very carefully and just like all of you, we have noted the depreciation of the euro relative to a basket of currencies but more importantly, relative to the dollar. Just to give you an order of magnitude: it's since the start of the year 12% relative to the dollar, and 4% in nominal effective terms relative to other currencies in general. Of course we notice. We know that it does have an impact on inflation with a lagging time. It has direct and indirect effects as well, and we are very attentive to those, but we do not target an exchange rate. We have not done so and we will not do so.

On your other question on TPI: you know, I don't have much more to say on TPI than I did last time around in July. I don't think that you should expect much more. I know that some would like to have masses of information on TPI. TPI has been debated at length, approved unanimously. It has some criteria and some eligibility dimensions. It has a termination point, too. If and when the criteria are met and the eligibility conditions were satisfied, we stand ready to use TPI, no question about it.

**The first question relates to TLTROs. Banks that have borrowed TLTRO money on the cheap now stand to benefit by depositing this with the ECB. That sounds like gaming the system to me, but I know some of your colleagues are uneasy about the prospect of this. Did you discuss today changes in TLTRO conditions and is this something that could be happening in the future? What do you think about TLTROs?**

**The second question is about the downside scenario in growth: as you mentioned, some of these downside risks have materialised, so how deep a recession would you need to reconsider the policy rate path and say, "Now this recession is actually deflationary and we need to stop rate hikes"? Is the downside scenario enough for this, or would you need an even deeper recession?**

On your first question: I'll remind you that the TLTRO changes of conditions that were introduced during the pandemic were engineered, designed and intended to encourage banks to lend to the economy – which is what we all wanted, which is what was predominantly done. The TLTRO pricing that was then designed was intended to that effect. Now, it's obvious that as we are shifting to positive territory in terms of interest rates, there are multiple dimensions of our operational frameworks, our remuneration mechanisms, that need to be revisited. This is a matter that we will take up, that will see some resolution. It has not been debated on the occasion of this particular monetary policy meeting, but it's an overall review that we will obviously conduct in due course.

On your second question: look, we are in a situation where at zero interest rate – and even with this frontloading – we are stimulating the economy, with an expansionary monetary policy. Now, doing that when we have 9.1% inflation and projected inflation at the end of our projection period north of our target at 2.3%, simply does not warrant that accommodative monetary policy continues to stimulate. Our mission is to restore price stability, it's to return inflation back to 2%. As a result of that, we are determined to do this job and we will continue to make the decisions on the basis of data, meeting by meeting. And obviously if we are faced with a major supply shock, if for instance gas prices were to continue to skyrocket, we will take that into account both in terms of the consequences on growth, which will be recessionary, but also consequences on inflation. That work will be done in due course, as I said, meeting by meeting.

**Could I ask a question about the terminal rate? Have you identified the terminal rate? Can you share that with us now, and could you also talk about whether the increments of interest rate rises will get smaller as you get closer to the expected terminal rate?**

What I can tell you for sure is that as we are so far away from the rate that will help us return inflation to 2%, our hikes have to be not only timely but of a magnitude that brings us closer and more quickly towards those rates. Now, a contrario, am I saying here that as we get closer to those rates the incremental interest rate increases will be smaller? No I am not saying that because we will proceed meeting by meeting and on the basis of data. So I don't want to prejudge and to anticipate. What I can tell you is that the further away we are, the larger the step we are taking. Which is why we are frontloading now. Do I know exactly what is the terminal rate? No. This is a matter that is going to probably agitate debate and everybody will have their view. But it's obviously one that we have to decide again as we get closer and as our forecast tells us whether or not we are reaching our goal; the

2% medium-term target inflation. This is what on every occasion will help us define whether we are at that particular rate.

**I have one additional question on quantitative tightening. Would it be possible for the ECB to end its reinvestments in the APP programme in the near future? The Bank of England, the Fed have initiated QT (quantitative tightening) already for some time.**

**My second question is on the forecasts. The ECB has underestimated inflation for some time, so how relevant are they still for monetary policy?**

You remember that last July we decided to no longer rely on forward guidance on many aspects, and to work meeting-by-meeting on the basis of data, with the exception of the reinvestment programme on APP and PEPP, for which we still have some forward guidance. So the forward guidance that we have on APP is that maturing securities which were purchased under APP will continue to be reinvested, as long as is appropriate, in order to maintain ample liquidity conditions and an appropriate monetary policy stance. For PEPP it's not exactly the same forward guidance, but we also have forward guidance, and we refer to at least the end of 2024 without interfering with our monetary policy stance. Having said that, what we are doing now is focusing and giving priority to the policy rate, because we believe that it is the most appropriate and most proportionate, most efficient instrument that we can use in order to return inflation to the 2% medium-term target.

We, of course, examine all instruments, and the reinvestment policies that we deploy are part of the instrument, but now is not the time, and we would regard it as premature. We are using the policy rate. It will happen, but on the basis of data, on the basis of our analysis meeting-by-meeting, and once we have determined that these policies of reinvestment, or discontinuing reinvestment, are going to be necessary and appropriate to help us return to the 2% medium-term target.

About underestimation of inflation: this is a matter which has been raised by many. Can we trust forecasts? Can we trust the previsions? Can we work on the basis of numbers that are produced by our economists? We were as blunt as to actually examine why and where the errors came from, because, yes, we made forecasting errors, as did all the international institutions, as did most of the economists, because it's virtually impossible to actually anticipate and include in new models COVID, the war in Ukraine, the energy blackmail. So yes, we made those errors, and when you go under the surface and try to find what is the origin of those errors, it's predominantly related to energy. So while I take the blame, because I'm the head of the institution, and yes, we made forecasting errors, but those errors were made by all forecasters. We are not very different from them. We accepted we made errors. We came forward with the causes for the errors, and I can assure you that the staff constantly improves, tries to embed in the models what should be embedded which was not up until now, and that we also apply as much judgement as possible to be as accurate as we can. But it is a fact that because these matters could not be anticipated, we have had to revise our projections, absolutely.

**I have two questions. One on financing conditions. As you said, they are getting less favourable for households and firms. Is the tightening in the credit and bond markets going too far?**

**I link this, my second question, to financing conditions and the terminal rate. Because the terminal rate is becoming a sort of forward guidance for us. And so if you say that we are so far**

**away then the market is going to have to price in the next interest rate hike, and tightening conditions are going to get tighter and tighter.**

Thank you very much for your questions, but we actually took the decision today that we would continue to raise interest rates. It's not just frontloading and then we are done with it. We are frontloading and we will continue to increase rates meeting-by-meeting on the basis of data, because we believe that we are far away from the rate at which we hope and we'll see inflation return to the 2% medium-term target. This is the goal that we have. I'm not scratching my head around the neutral rate versus the terminal rate versus the r* and so on and so forth. What we know is that we want to get to that 2% medium-term target, and we will take the necessary steps along the way in order to get there. We think that it will take several meetings. Some people will say, “How many is several?” Well, it's probably more than two, including this one, but it's probably also going to be less than five. Now, I leave it to you to decide whether it's going to be two, three or four. You have at least a ballpark idea of how long it will take. That's the length of the journey, and this is the reference that we make to “timely”: we want to return timely to that goal that we have.

Now, you've asked me if the tightening in the bond market is going too far or not. It's not a bad anticipation that they've done, I would say. I'm not sure it's perfectly accurate, but it's not a bad market assumption, in current conditions.

**In the Netherlands we experience one of the highest inflation within the eurozone. For years the ECB has been trying to bring up low inflation. What makes you so confident that you can now really bring high inflation back down? What perspective can you give to our citizens?**

The Netherlands is in the region of the high-inflation countries, but it's not the highest. There are further and higher rates, particularly up north and in the Baltic countries. We are very aware of the heterogeneity that we have between, say, Malta and France and the Netherlands and Latvia, for instance. We have to care about all citizens of the euro area. I think for many years what my predecessors have tried to do is to make sure that we didn't go into deflation territory, and that is the reason why there was a negative rate since 2014, and why there was quantitative easing. The situation has significantly changed in the last 12 months, and I'm not trying to make a fine point or be cute about it, but we haven't tried for years to reduce inflation. Inflation is a phenomenon that we are facing and have been facing for the last 12 months or so. We are now on that path of normalisation of monetary policy, so we are exiting that period of quantitative easing and negative rates. That is behind us. We are now moving into positive territory at a frontloaded pace, and we are determined to return to the 2% medium-term target that we have under our strategy review, and as a common denominator within the Governing Council, and we will take the steps that are needed to that effect.

**Is it easier to bring inflation down than to bring it up?**

The future will tell, but what I can assure you is that we are determined to do so. Inflation is a terrible phenomenon, and particularly for the less privileged people. I think we are all aware of that. Our job is to return inflation to 2%, and we will deliver on that job. We should not expect, and nobody should expect that inflation is going to return to 2% in the next three months. Why? Because there is a lag time between the time when we make the decisions and when it actually translates through the transmission channels to the real economy. And also because it is still predominantly a supply-driven phenomenon. I cannot reduce the price of energy. I cannot convince the big players of this world to reduce gas prices. I cannot reform the electricity market, and I'm very pleased to see that the European Commission is considering steps to that effect, because monetary policy is not going to reduce the price of energy. Monetary policy will contribute to reducing expectations. It will give a strong signal to people that we are serious and that we will contribute to reducing inflation, but if the cause is predominantly supply-driven and based on energy prices that keep rocketing, this is for somebody else to do the job. But we will do ours; we will do our job.

**On interest rates, is the ECB ready to raise the rates above the terminal rate if it is necessary to bring back inflation to 2%, to force it, and then bring it back to the terminal rate, what level it is? So this is my question on guidance.**

**You said that prevision is something difficult in the ECB. Is monetary policy now for this period something that has more to do with art than with science? You outlined this in a previous speech. So what is artistic in the decisions made today?**

As I said earlier, we start from zero. We're taking a major step by frontloading, and we know that we have more steps to go towards that rate at which we believe that we will return inflation to 2% in the medium-term. If it means that we have to go further than whatever rate you refer to, we will do so. Because we have a goal, we have a mission, we have incredibly high inflation numbers, we are not on-target in our forecast, and we have to take action. We don't want to see second-round effects; we want all economic actors to understand that the ECB is serious about returning inflation back to 2%, in whatever decisions they make.

Now, you asked me about the artistic side. I wish it was artistic. What I meant is that – and I think I was quoting another famous – not that I'm famous – but a famous central banker, who said that it was not just about science, but there was also an element of art about it. I think what I understand that to be is that we cannot be purely mathematical. We cannot be exclusively driven by the outcome of models, however sophisticated they are, however judgement we put into the selection of assumptions that we make. We also have to include in those decisions that element of collective judgement that we try to bring to the table in the course of those discussions. So that's what I meant.

**As you've been speaking the euro has been falling, and I suppose my question revolves around the likelihood of another three-quarter [percentage point] interest rate hike at the upcoming meetings. You've said that's not the norm, but will the three-quarters of a percentage point be on the table going forward?**

**My second question was on the contrast between what's happening in the US economy and what's happening in the eurozone. You've previously emphasised that the eurozone is in a different place from the US. The eurozone inflation rate is now about the US level. Does that mean actually they're in quite a similar situation when it comes to inflation and the medicine needed is similar?**

On your first question, what I'm saying is that we are not on a set course, other than being driven by our goal. So our decisions will be made meeting-by-meeting, will be data dependent, be state dependent, and what I'm trying to explain is that we are not trying to mimic any other central bank, we are not transforming a frontloading exercise into a permanent exercise, but if the data on our meeting-by-meeting review suggests that we should take a high hike of our interest rates, we will do so. So it is not pre-set, it is not predetermined, and it will be decided meeting-by-meeting. But the certainty is that we are far away from the goal. We are taking a major step today by frontloading, and we will decide more interest rate hikes in the future over the next several meetings.

Your second question, I think you know the answer to the question, but I'm happy to repeat it. If you compare the situation of the US and that of Europe, and in particular in relation to inflation, inflation in the United States is largely driven by demand. In the euro area it is largely driven by supply. Not exclusively – there is also a portion of demand in the sources of inflation – but it's predominantly supply. When you look at the labour market, which is an important phenomenon to appreciate, whether we have a risk of further escalation of inflation and second-round effect in particular, we see a US market which is – some of you say it, actually – "red hot", where the rate of vacancy to unemployed person is 2 to 1, whereas, here in the euro area at large it's 0.3 to 1. So for one vacancy we have three unemployed people. It's a slightly different situation. A third difference is that, clearly, in their normalisation path and possibly tightening path, the Fed is starting from a different base from that of the euro area. We were starting from negative territory, moving out of it, and going further on that normalisation path. I think there are multiple other differences that I could give you, but I think those are the ones that will matter most for your analysis of the difference in inflation situation that we have.

**In December you were saying it was unlikely that rates will hike this year. In June you were saying that in July it will increase by 25 basis points, and it went up by 50 basis points. And you need to frontload now. Obviously, as you said earlier, you couldn't forecast the war in Ukraine, you couldn't forecast the gas embargo that's happening but nevertheless, are you worried about the credibility of the ECB? Because every time you need to basically accelerate.**

**The second question, if I can come back on the exchange rate. Obviously, you've said it several times: you are not targeting a level of exchange rate. But can you elaborate on the effect that the exchange rate has on the current economic climate here in the eurozone?**

On the need to accelerate, what I can tell you is that at this point in time, with the numbers that we have, with the dynamics that we see, with the sources of inflation, with the forecast that we have, we are determined to move. And to move at this timely pace that is referred to in the monetary policy statement, which means that as we are deviating from target, and with the high numbers that we have currently, we need to frontload, as we have this time around, and we need to continue hiking. That's our determination. Yes, we had to accelerate, because when you are faced with new data, with new analysis, with new forecasts, you of course have to adjust. I think that our credibility will be judged by whether or not we return inflation to the 2% medium-term target as we are committed to.

On the impact of the depreciation of the euro in effective terms and relative to the dollar, I don't have a decomposition right now of how much exactly it contributed to the inflation as it stands, but it will be available in the documentation that will be published later on. Suffice to say that, indeed, it has a direct impact on our imports in particular, to the extent that most of the energy products are issued and denominated in US Dollars.

**Thank you, President Lagarde. This brings our press conference to an end. Thank you very much everybody for following. The next scheduled press conference is on 27 October. Up until then, I wish you all the best. Good afternoon. Bye-bye.**

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